

# **SERVICES IN THE TRADING SYSTEM**

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Good morning, everyone. Thank you for that introduction, and for inviting me to speak at such a timely event. We are now laying the foundation for a very ambitious and challenging agenda on trade in services over the next few years, and this is an ideal time to meet.

## **SERVICES TRADE AGENDA**

As we prepare for the WTO Ministerial Conference in Geneva, and the launch of a new Round of global trade negotiations at the event, the months ahead are crucial to the development of an agenda that will mean a more stable, productive and prosperous world economy in the next century. We are also working on the accession of 30 economies to the WTO, many of which will set precedents for the future. And the regional and bilateral initiatives underway in Europe, the Western Hemisphere, Asia, Africa and the Middle East offer us similar opportunities to set precedents and develop models for 21<sup>st</sup>-century services agreements.

Our services agenda thus proceeds in a complex set of negotiations; and it covers a vast range of industries, from finance and telecommunications to distribution, health, education, environmental protection, travel and tourism, construction, law, engineering, architecture and more. And as we begin to set specific objectives for the years ahead, I would like to offer some thoughts on our broader goals, and the contribution each of our negotiations will make to them.

## **BENEFITS OF OPEN SERVICE MARKETS**

We might do well to begin by thinking about the place of services in our own economies.

Here in the United States, we have created perhaps the world's most efficient, competitive services sector. American services industries provide over 100 million jobs and \$6 trillion worth of production -- 70% of American GDP, and more than one dollar in seven of world production. They are also the infrastructure which allows our industrial and agricultural economies to function.

- Efficient transport and distribution allows farmers to get their products to market without spoilage, and ensures that auto parts reach the plant in time for efficient production.
- Law, insurance, accounting and finance give businesses the capital to operate, allow

contracts to function, and protect consumers.

- Telecommunications, software and news dissemination are essential to the functioning of all modern industries.
- And new technologies now developing, in particular but not only the Internet and electronic commerce, promise a vast increase in the efficiency and productivity of American service industries in the years ahead.

Our success rests on a philosophy of openness to both domestic and foreign competition, combined with guarantees of high standards of consumer protection through transparent, pro-competitive and impartial regulation. The competition this creates speeds innovation and helps develop a productive, efficient economy.

There is nothing mysterious about this; in fact, the role of services in economic efficiency and technological progress has been clear for quite some time. Recorded in the Book of Kings, for example, is a case of what the WTO would call “architectural and construction services, Mode Four,” when Solomon writes to the King of Tyre offering cash salaries for the architects and construction workers to oversee the building of the Temple:

“I will pay for your servants such wages as you set, for you know that there is no one among us who knows how to cut timber like the Sidonians.”

## **TRADE IN SERVICES TODAY**

This is what open and competitive service markets have helped us create at home; and it is what open trade in services can bring to the world economy.

But the world economy in services today is far from the ideal. In industrial goods, we certainly have many serious concerns, but after fifty years of trade negotiations much trade has become substantially more free: for WTO members, tariffs have fallen by an average of 90% since 1948, and quotas are on the road to elimination.

In services, by contrast, rules and market access commitments are new. As recently as 1993, when President Clinton took office, there were essentially none at all.

We have made substantial progress since then -- the General Agreement on Trade in Services (GATS) took the fundamentally important step of creating a set of rules and set some precedents for market access commitments as well. And the agreements in 1997 on Financial Services and Basic Telecommunications brought us further, with commitments to market access and national treatment in two of the highest-value service fields.

But these are only the first steps. Even for WTO members trade is highly restricted. In

most service sectors we see few specific commitments. Seventy WTO members have signed the Financial Services Agreement (joining 32 more with specific financial services commitments), and a comparable number the Agreement on Basic Telecommunications; that means over sixty have signed neither. Only fourteen WTO members have made commitments in audiovisual services. No developing countries have made commitments on gathering and dissemination of news; fewer than fifty WTO members have made commitments in distribution. And economies outside the WTO have done even less.

## **COSTS OF CLOSED MARKETS**

These are barriers to American exports and job creation. Our performance in a relatively closed world -- \$265 billion in services exports last year, supporting four million jobs -- is simply an indicator of how much we can achieve in an open market.

But the damage these barriers create goes much further. The costs to the world of closed markets in services, and of the imbalance between the relatively closed services market and the more open world for goods and capital, have never been more clear than they are today.

Inefficient, pollution-prone power and transport reduce efficiency, worsen the quality of life and waste investment. Telecommunications markets reserved for government monopolies make service worse for consumers and business more difficult for firms. Monopolies in distribution reduce the efficiency of farms, fisheries and manufacturers throughout economies.

Most of all, the financial crisis -- sparked at least in part by closed markets and opaque regulation in financial services and construction -- has shown how rapidly industrial growth can come to a halt in the absence of competitive, well-regulated services markets. And its effects -- millions of jobs lost in Southeast Asia, with families sinking into poverty and hundreds of thousands of children leaving school; Russia's prospects for reform and growth threatened; a crisis in farm incomes and steel factories in America -- show how important and urgent is reform.

The world's response to the financial has been, I think, remarkably effective. Affected countries have shown great courage and determination in reform. The IMF predicts that Korea and Thailand, which acted most quickly and thoroughly, are likely to resume positive growth this year. And as we look ahead, and our colleagues in finance ministries review the world's financial architecture, those of us in trade policy have an opportunity to contribute to an effective long-term response through the services negotiations of the years ahead.

## **PREPARING FOR THE ROUND**

And thus we are developing an agenda that will help us create a safer and more stable international economy as it offers new opportunities to Americans.

This will begin with limited and specific achievements in the months leading up to the Ministerial Conference in Seattle this November, to lay the foundation for the launch of a new

Round of global trade negotiations, including in services. These include progress toward an agreement on transparency in government procurement, which is a major purchaser of services worldwide; and in electronic commerce, work toward consensus on extension of the moratorium on tariffs applied to electronic transmissions.

## **2. Developing the Agenda for the Round**

At the same time, we are developing specific goals for the Round itself. While we are still consulting with our domestic industries and Congress, our broader goals will include:

- Liberalizing a broad range of service sectors: deeper commitments in finance and telecommunications, together with fundamental improvements in the commitments of existing WTO members on distribution, audiovisual, construction, travel and tourism, the professions, education and health. Liberalization of distribution services is also a critical aspect of liberalizing trade in goods.
- Ensuring that GATS rules anticipate the development of new technologies. Examples are obvious in almost every field, from colleges which can teach, hold examinations and grant degrees via the Internet; home entertainment products delivered by satellite; and advanced health care delivered directly to the home or to rural clinics via telemedicine.
- Preventing discrimination against particular modes of delivering services, such as electronic commerce or rights of establishment.
- Examining “horizontal” methods of improving regulatory policies across the different industries through general commitments, for example, to transparency and good-government practices.
- And otherwise developing a more efficient negotiating structure than the “request-offer” process of the Uruguay Round.

## **3. WTO Reform: Trade Facilitation and Capacity-Building**

At the same time, we are developing ideas for reforming and improving the WTO in some of the areas directly related to services.

One example is trade facilitation, in which, for example, ensuring timely and reliable customs procedures is especially important in the context of distribution services – an efficient distribution network can lose much of its value if long delays let food spoil in transit or delay shipment of auto parts and semiconductors for factories.

A second is upgrading capacity-building at the WTO, to ensure that members are able to make and comply with commitments in the services field. These are new and highly complicated

issue for many countries -- the National Statements circulated by many of the developing countries at the last WTO Ministerial Conference, for example, showed a widely shared concern that domestic regulatory agencies are having trouble meeting even existing WTO commitments. A number of African Ministers stressed their concern over these issues to me at the recent US-Africa Ministerial; and satisfying such concerns is essential if commitments are to be meaningful in the real world.

And a third is transparency. Just as domestic governance improves when it is open and accessible to the public, the WTO's work will improve and the institution will gain greater public support when dispute settlement panels are open to public observers, documents published in a timely fashion, and interested citizens or citizen groups have institutional mechanisms which allow them to meet with WTO members and staff.

#### **4. Consultations at Home**

Finally, we are consulting intensely at home on specific objectives for each sector with industry, Congress, as well as Governors, state regulatory officials, and state legislators.

These latter consultations with state officials are especially important if the Round is to succeed. In America as in some other countries, service standards and regulations are often established by state governments or private professional associations rather than national governments; and there are often good reasons for this. Trade policy must respect and work with the relevant bodies, while ensuring that the standards fulfill a legitimate purpose rather than simply restrict trade.

### **ROLE OF ACCESSIONS AND REGIONAL INITIATIVES**

At the same time, our work in two other areas -- 30 separate accessions to the WTO, and regional initiatives in Europe, Africa, Asia, the Middle East and the Western Hemisphere -- is proceeding together with preparations for the Round. The accessions and regional initiatives offer significant immediate benefits for American service providers; but they also help us set precedents and develop models for a more open world services market.

#### **1. WTO Accessions**

With respect to the WTO accessions, in the past year we have completed the accessions of Latvia and Kyrgyzstan; completed bilateral negotiations with Taiwan and Estonia, and made significant progress on ten other accessions -- seven in Central and Eastern Europe, Jordan and Oman in the Middle East, and China and Taiwan. In each of these accessions we have sought commitments in broader ranges of service sectors, and agreement to participate in the Financial Services and Basic Telecommunications agreements.

Many of the acceding countries have recognized the value of open services markets.

Taiwan is one. Kyrgyzstan, the Baltic states, Georgia and Armenia are others. Thus, their accession agreements include commitments in areas many other countries have avoided -- professional services, distribution, construction and more. These set baselines for future accessions, an example for improving the commitments of today's WTO members, and a foundation from which we can work in the WTO Round.

The largest single accession is that of China. Here, some limited service issues remain to be resolved, but we have made very significant progress. Starting from the base of one of the world's most closed services markets, China has made a broad set of commitments covering all major service categories, reasonable transitions to eliminate most foreign equity restrictions, full grandfathering of current market access for U.S. service providers, and participation in the Basic Telecom and Financial Services Agreements.

## **2. Regional Initiatives**

Regional initiatives also play an important role, again for their direct and intrinsic benefits but also as models for what we might hope to achieve worldwide.

An especially important case is the work toward establishment of a Free Trade Area of the Americas. These talks involve 34 Western Hemisphere democracies, from small island states to continental nations like Brazil and Canada as well as ourselves. The detailed work began, at the direction of the Santiago Summit last fall. It includes a Negotiating Group entirely devoted to trade in services, which like the other FTAA Groups is scheduled to complete an "annotated outline" of an FTAA services chapter by September. If successful, this will both help us create an early model for worldwide liberalization of services trade, and build a Western Hemisphere consensus on shared goals as the Round approaches. Likewise, the FTAA has established a special Committee to advise us on ways to develop electronic commerce in the hemisphere.

The Transatlantic Economic Partnership (TEP) with the European Union offers another forum. Here, we aim to make it easier for U.S. professionals and firms to operate in Europe, safeguard U.S. interests as the EU expands, and set an example of bilateral liberalization which the world can follow in the Round. Under the "TEP Action Plan," we are working toward conclusion by the US-EU Summit next month of an agreement setting a framework for negotiating Mutual Recognition Agreements -- that is, agreeing to recognize accreditation or licensing granted by one another's regulatory standards -- in services fields. The next step will be to use the framework to achieve concrete results in specific services sectors immediately after the June summit, by opening the negotiation of MRAs in engineering and possibly insurance or other sectors. Thus we will create mutually beneficial new opportunities, in a relationship that already exceeds \$130 billion in bilateral services trade, and help build consensus for the Round.

Our work in Japan has similar implications. Here, our agenda will assist the Japanese government's efforts in the financial services "Big Bang" and elsewhere to create a more flexible and efficient economy, open new opportunities for international business, and create areas of

consensus as the Round approaches. This includes liberalization of key sectors such as distribution, professional service, finance, energy and others; compliance with existing agreements such as the Insurance Agreement; and broader horizontal issues, notably transparency. Most recently, during Prime Minister Obuchi's visit to Washington last month, through the Enhanced Initiative on Deregulation and Competition Policy we agreed that Japan will take concrete measures in sectors including telecommunications, financial services, energy and distribution services.

The President's Africa initiative offers another dimension of experience. This encourages deeper services commitments -- Ghana and Uganda have this year agreed to join the Financial Services Agreement -- and includes a major capacity-building component helps African nations develop regulatory, legislative and technical capabilities in high-tech sectors. One prominent example is USAID's Southern Africa Regional Telecommunications Restructuring Program which helps promote modern telecommunications laws and regulation in six southern African nations through technical advice, seminars for regulatory officials and suggestions on legislation. Another is the Leland Project, which has helped eight African countries develop Internet gateways and enter electronic commerce. This experience will help the WTO strengthen its own capacity-building work, and is crucial to ensuring strong developing country support for a Round.

## **CONCLUSION**

The work ahead is vast. Trade in services will clearly be one of the world's major trade policy focuses for the next five years; and probably the next fifty. And thus, the work we do in the next months -- in preparation for the Round, in the WTO accessions, in our regional initiatives -- will lay the foundation for a period of extraordinary accomplishment.

If we succeed, open trade in services can create a more stable and productive world economy, as competition brings both innovation and transparency to world financial systems, and efficient power and transport reduce costs and allow faster growth with a cleaner environment.

Altogether, it will be a world made wealthier, more peaceful and better through respect for freedom, rewards for hard work and creativity, fair competition and the rule of law.

It is a large task; but we should feel very lucky to be here as it begins.